

# **EXHIBIT 3**

# **Employee Handbook Compensation Policies**

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## COMPENSATION PROGRAM OBJECTIVES

The Quest Diagnostics total compensation package is made up of three components; base pay, variable pay, and benefits. Short term elements include salaries and annual variable pay. These programs are designed to attract, retain and motivate employees and to ensure the achievement of strategic goals and business objectives and ensure fair and equitable treatment.

Quest Diagnostics' pay programs seek to:

*(Through base pay programs)*

- ◆ Pay employees competitively based on comparisons to the market place and their contributions to the company
- ◆ Establish pay structures directly linked to competitive market rates

*(Through incentive pay programs)*

- ◆ Pay for individual, group, and company performance
- ◆ Reward employees for their continued contributions to business unit objectives
- ◆ Directly link a portion of all employees' pay to company and business unit results

## COMPENSATION PROGRAM DESCRIPTIONS

### **SALARY STRUCTURE AND GRADES**

A comprehensive salary structure has been developed with grade levels that reflect the competitive rate based on market data at companies with whom we compete for talent. The salary structures are developed based on a market pricing method using local, regional, national, general industry, and industry-specific salary survey sources. Each salary range has a minimum, midpoint, and maximum pay rate. It is Quest Diagnostics' objective to be competitive at the median (50<sup>th</sup> percentile) of the market place.

Salary structures are reviewed annually to ensure continued external competitiveness and alignment with the company's business strategy. A newly created or changed job is assigned to the salary range based on external market rates. Internal relationships between jobs are used to break ties but are also used when benchmark market data is not available.

## ***BASE PAY***

Base pay or base salary is the core element of the compensation program. It may be expressed in terms of an annual salary, biweekly amount, or hourly rate. Base pay reflects a combination of the following:

- ◆ The market value of the job
- ◆ The employee's education, certification, and related experience level as required by the job
- ◆ Performance

## ***VARIABLE PAY***

Variable pay is intended to focus each employee on the company's strategic objectives and to motivate individual and group productivity improvements. Variable pay is also called incentive pay because it links individual and group performance to business results. The following variable pay plans are offered:

### ***Annual Incentive Plan (AIP)***

It is a company-wide incentive plan designed to recognize and reward employees' achievement of company financial goals and business unit / functional results. All business units and corporate functions have established plans. (For AmeriPath employees, eligibility may vary by practice).

The annual award is paid as a cash bonus based on a percentage of eligible base earnings (base pay, differentials, overtime (if applicable), etc.). Payments are generally made in March.

Employees who are in jobs that have an Individual Payout Factor (IPF), generally grades 48 and above, are rewarded for the achievement of individual objectives as well as the company financial goals and business unit/functional results. Payments are made to participants who have responsibilities that directly affect the company's strategic goals and business objectives.

Non-IPF employees are recognized and rewarded for continuous improvement of their organization through individual and teams working together to meet established financial other performance objectives.

### ***Sales Incentive Plans (SIPS)***

Sales incentives are designed to achieve:

- Profitable business growth
- Development of the existing base business
- Successful implementation of critical initiatives

Sales compensation includes base salary and incentive compensation (commissions/bonus). In the same way as other base pay and variable pay targets, total sales compensation is based on competitive market practice. The base/incentive "mix" varies depending on the position.

Eligibility

Sales force representatives in sales compensation plans may not participate in any other incentive plans (e.g. AIP).

## GENERAL SALARY POLICIES

***Merit Increases***

Merit pay increases recognize enhanced and/or sustained quality performance. The main factor in determining an employee's increase is his or her work performance during the past year. Position in salary range may also be used as a secondary factor. Merit increase budgets and guidelines are reviewed each year.

Eligibility

Employees are eligible for a merit increase in March if they were hired into the company before September 30 of the prior year. Employees hired prior to September 30 are eligible for a prorated merit increase based on the month of hire. Increases are prorated from the month of hire to the common review month.

Employees hired between October 1 and the common review date are eligible for a merit increase in the following year's salary planning cycle. For instance, an employee hired on October 15, 2015, would not be eligible for a merit increase until March 2017 and will not be prorated greater than 100%.

***Promotional Increases***

A promotion is defined as a job change that reflects increased responsibilities, typically characterized by an upward change in salary grade level. Promotional increases where appropriate will be given to recognize this increased accountability.

To determine the appropriate promotional increase for an employee, the following will be given careful consideration:

- Magnitude of the promotion in terms of increased job responsibility (e.g. one grade level promotion; two grade levels, etc.)
- Employee's current salary
- Relationship of the new salary to employee's peers in the new position
- Position of the new salary in the new salary range

### ***Reclassifications***

An employee whose current position is re-priced or re-evaluated and subsequently reclassified to a higher salary grade level is not automatically eligible for a salary increase unless the employee's current base is below the minimum of the new salary range. Other adjustments to base salary will be considered if the employee's current salary is significantly lower than peers with similar background, service and performance.

### ***Lateral Moves***

An employee who moves from one job to another in the same salary grade is not typically eligible for a salary adjustment.

### ***Temporary Assignments***

An employee, who temporarily fills a position in a higher salary grade or temporarily assumes the responsibilities of a higher graded position, may be eligible for a temporary salary adjustment if the temporary assignment is at least 30 days in duration. For more information, please refer to the Temporary Promotion policy.

### ***Moving to a Lower Level Position***

A move from one position to another in a lower salary grade may cause a salary decrease. The decision on the salary decrease will take into consideration the following:

- The reason for the move
- Employee's current salary
- Employee's experience in relation to peers
- Position of the employee's salary in the new salary range

### ***Shift Differential***

A shift differential is additional compensation paid to an employee regularly scheduled to work the second or third shift. All employees with a 3 or 5% AIP target are eligible to receive a shift differential.

(For AmeriPath employees, only non-exempt are eligible for shift differential. Shift differentials vary by practice and geographic market need.)

Shift Differential is not paid on hours not worked such as Time Off with Pay (TOP), holiday, jury duty, bereavement pay, or call back hours not worked.

#### **Changes in shift to accommodate a personal request**

A first shift employee who requests a temporary schedule change to another shift will not receive a shift differential. A second or third shift employee who requests and is granted a temporary schedule change to the first shift will not receive a shift differential for the time worked on the alternate shift.

#### **Mandatory changes to shift due to business need**

A first shift employee, who due to business need, is assigned to a second or third shift either on a regular or temporary basis receives a shift differential. Conversely, an

employee assigned to second or third shift on a regular basis who is required to work a first shift temporarily will continue to be paid his/her regular shift differential.

#### **Weekend Differential**

In some circumstances, weekend differentials are paid if the business unit chooses to compensate employees for working a regularly scheduled Saturday shift, Sunday shift or Saturday and Sunday shift. An exempt employee will not receive a weekend differential. A unit's decision whether or not to offer weekend differential is typically based on local market practices.

#### ***Travel Pay for Non-Exempts***

Non-exempt employees who are required to travel outside of their normal business hours will be paid for all hours in transit. All travel hours are tracked as hours actually worked and counts toward overtime.

Non-exempt employees are not paid for non-travel hours or hours not actually worked (i.e., a night away in a hotel, normal commute to/from work, etc.).

#### ***Inclement Weather/Emergency Closing***

There are certain situations that may force a laboratory or other facility to terminate business for a period of time, close for a day or provide flexibility for employees arriving to work. The following rules apply:

##### **Closing of Facility**

If a decision is made to close a facility due to inclement weather or any other reason, all employees who are regularly scheduled to work during the period of time the facility is closed will be paid for their full shift.

##### **Late Arrivals**

When a laboratory officially recognizes an emergency/inclement weather situation, it may provide flexibility for employees reporting to work. An employee will be paid for a full shift if he or she reported to work within the specified grace period determined by management.

Any hours paid due to emergency closing/inclement weather (closing of facility and/or later arrivals) will not include shift differentials and will not count towards the calculation for overtime purposes.

Employees who find it impossible to get to work during an emergency/inclement weather situation but the facility is open, must use TOP or take the day without pay if TOP is not available

#### ***On-Call Pay***

Non-exempt employees scheduled to be "on-call" are eligible for on-call pay. Exempt employees are not eligible to receive on-call pay.

Guidelines for non-exempt employees:

- A flat amount per hour will be paid for all hours on-call.
- Shift differential is not applicable to on-call pay.
- On-call pay is not paid for any hours actually worked following a call-back.
- On-call pay is not paid on top of the regular rate of pay.

***Call Back Pay***

Non-exempt employees called back to work while on-call are eligible to receive call back pay. Exempt employees are not eligible for call back pay.

Non-exempt employees called back to work while on-call are eligible for the following:

- Normal hourly rate (plus differential, if applicable) for all hours worked plus time in transit. Employees will be paid for a minimum of three hours if time actually worked plus time in transit does not equal three or more hours.
- Shift differential, if applicable, will be paid only on hours actually worked.
- Only the hours actually worked (including hours paid in transit) will count towards the calculation of overtime.
- Reimbursement of mileage, round-trip from home to work, at the prevailing IRS mileage allowance.
- If the employee is called back to work more than once during the period of time considered the three-hour minimum, it is regarded as part of the three-hour time frame.
- An employee regularly scheduled for second or third shift that is called back to work for the first shift will receive their regularly scheduled shift differential for those hours as well.

**Example:**

If an employee works normally scheduled hours from 8:00am to 4:30pm and then was called back from 9:00pm to 12:30am, then he/she would receive the base rate pay for the eight hours worked from 8:00am to 4:30 p.m., and the regular rate of pay plus evening shift differential for the time in transit and the hours he/she actually worked from 9:00pm to 12:30am.

**Example:**

If an employee is on-call from 12:00 a.m. to 11:59 p.m. (24 hour period), and is called in to work at 1:00 a.m. returns home at 1:45 a.m. and is called back again at 6:00 a.m. and returns home at 6:30 a.m., the employee will be paid for two 3-hour minimum periods. The on-call rate would apply to 18 hours (24 hours on-call minus 6 hours at regular pay).

***Call-in Pay***

Non-exempt employees required to call in to work will receive their normal rate of pay for time spent on the phone handling problems and any applicable shift differential. Supervisory approval is required.

### ***Holiday Pay***

- Regular employees who are scheduled to work 20 hours or more each week are eligible to be paid for each observed holiday, regardless of their work schedule.
- Non-exempt employees who work on the observed holiday will be paid their regular pay plus holiday premium (50% of base rate of pay) for all hours worked during the holiday zone. This is in addition to the holiday pay, if the employee is eligible, for a total of 2.5 times.
- Exempt employees receive their regular salary and are not eligible for additional holiday pay or premium for work on the observed holiday.
- Holiday benefit hours (holiday not worked) will not include shift differentials and will not count toward the calculation of overtime or the calculation of double time.
- A holiday that occurs on a weekend may be observed on either the preceding Friday or the following Monday and will be designated by the company.

### ***Overtime***

- Quest Diagnostics will pay overtime, as required by law, when non-exempt employees work more than 40 hours in a work week. Non-exempt employees are paid one and one-half times the regular hourly rate for all hours worked in excess of 40 hours in a work week, except where applicable state wage and hour laws require otherwise. The regular hourly rate includes base rate plus differentials.
- In states that do not pay daily overtime, any overtime hours worked on the seventh consecutive day of the work week (this can only be on a Saturday) that exceed 40 hours will be paid at a rate of two times the regular hourly rate for the seventh day only.
- Overtime hours are paid through additional compensation, not through personal time off.
- Employees must obtain approval from their manager before working overtime.
- Employees who work overtime without their manager's permission will be paid, but will be subject to progressive corrective action.
- Employees refusing to work overtime, when required, may be subject to progressive corrective action.
- Exempt employees are expected to work hours as necessary to accomplish assigned tasks and will not receive payment for hours worked beyond 40 hours in a work week.
- Some states may require different calculations of overtime. In such instances, Quest Diagnostics will comply with state law.